

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
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OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01
PRS-01 /104 W

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 4344

INFO AMCONSUL MONTREAL

ALL OTHER AMCONSULS IN CANADA (POUCH)

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PASS WHITE HOUSE FOR VICE PRESIDENT, SCHLESINGER AND
GOLDMAN; FEA FOR O'LEARY AND FPC

E.O. 11652: N/A

TAGS: ENRG, PGOV, CA

SUBJECT: PUBLIC RATIONALE FOR PIPELINE DECISION

1. IN AN INFORMED ARTICLE IN AUGUST 4 TORONTO GLOBE AND
MAIL, UNDER HEADLINE "OTTAWA APPEARS TO BE JITTERY ON
YUKON PIPELINE COMMITMENT", JEFF CARRUTHERS DETAILS GOC
RATIONALE FOR EMERGING FROM IMMINENT PIPELINE DEBATE WITH
BROAD NEGOTIATING MANDATE RATHER THAN DECISION COMMITTING
CANADA TO DEFINED PIPELINE ROUTE. ARTICLE SUGGESTS TO US
THAT GOC IS FEELING THE HEAT FROM THE EL PASO ALTERNATIVE
TO ALCAN AND IS PREPARING ITS PUBLIC FOR A MORE FLEXIBLE
NEGOTIATING POSITION THAN MANY EXPECTED. TEXT OF ARTICLE
FOLLOWS.

2. BEGIN QUOTE: WITH A PIPELINE DECISION LESS THAN A WEEK
AWAY, THE CANADIAN GOVERNMENT APPEARS TO HAVE COLD FEET
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ABOUT PROVIDING A STRONG COMMITMENT IN FAVOR OF A CROSS-
CANADA ALASKA HIGHWAY NATURAL GAS PIPELINE.

THERE IS A GROWING FEAR THAT IF THE GOVERNMENT IS NOT
CAREFUL ABOUT WHAT IT DECIDES AND HOW IT ANNOUNCES THE
DECISION, THERE MAY BE NO CROSS-CANADA GAS PIPELINE, OR AT
LEAST THERE MAY BE NO LATERAL PIPELINE TO CANADA'S OWN GAS

RESERVES IN THE MACKENZIE RIVER DELTA REGION.

RECENT EVENTS, MANY OF THEM UNNOTICED ON BOTH SIDES OF THE BORDER, HAVE GIVEN THE INNER CIRCLES OF GOVERNMENT REASON TO BE SUSPICIOUS AND CAUTIOUS, BECAUSE THEY GIVE CREDENCE TO TWO POSSIBILITIES:

THE U.S. GOVERNMENT, FOR ITS OWN REASONS, MIGHT NOT ACCEPT THE ALASKA HIGHWAY PIPELINE IN A FORM THAT COULD BE SOLD POLITICALLY IN CANADA.

THE PROJECT MIGHT NOT BE ABLE TO OFFER THE ONE ESSENTIAL CANADIAN BENEFIT - AN OPTION TO LATER TAP MACKENZIE RIVER DELTA OR BEAUFORT SEA GAS RESERVES VIA A DEMPSTER HIGHWAY LATERAL AS DETAILED IN THE NATIONAL ENERGY BOARD'S DECISION A MONTH AGO.

THE ATTACK OF LAST MINUTE JITTERS IN THE CANADIAN GOVERNMENT CAN BE TRACED IN LARGE PART TO THE "FROSTY" RECEPTION ENCOUNTERED LAST WEEK IN WASHINGTON WHEN NORTHERN PIPELINE COORDINATOR BASIL ROBINSON AND HIS TEAM OF NEGOTIATORS ARRIVED THERE TO FLESH OUT WITH THEIR U.S. COUNTERPARTS THE FIRST PARAMETERS OF WHAT THE CANADIANS HAD ASSUMED WOULD BE A CANADIAN-U.S. AGREEMENT ON AN ALASKA HIGHWAY PIPELINE.

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U.S. NEGOTIATORS OUTLINE POSITION

THE U.S. NEGOTIATORS ARE SAID TO HAVE QUICKLY MADE IT CLEAR THAT THE UNITED STATES IS KEEPING OPEN ALL OF ITS OPTIONS, MAINLY THE ALTERNATIVE OF THE MORE-EXPENSIVE BUT ALL-U.S. EL PASO LIQUEFIED NATURAL GAS TANKER TRANSPORTATION SCHEME.

THE U.S. NEGOTIATORS ALSO, AS PART OF AN OBVIOUS HARDLINE BARGAINING STANCE, REPORTEDLY SET OUT A NUMBER OF THINGS THE UNITED STATES COULD NOT ACCEPT AS PART OF ANY ALASKA HIGHWAY PROJECT.

THE "UNACCEPTABLES" INCLUDED:

-- THE DOLS 200 MILLION SOCIO-ECONOMIC SURCHARGE FIRST MENTIONED BY THE NATIONAL ENERGY BOARD AND REAFFIRMED BY THE LYSYK REPORT THIS WEEK. THE SURCHARGE, AS PROPOSED, WOULD COVER THE NEGATIVE SOCIAL AND ECONOMIC COSTS RELATING TO A PIPELINE IN THE SOUTHERN YUKON AND WOULD BE PAID FOR BY THE PIPELINE COMPANY, AND ULTIMATELY BY U.S. GAS CONSUMERS IN HIGHER ALASKAN GAS PRICES.

(THE U.S. SENATE, IN RATIFYING THIS WEEK A CANADIAN-U.S. PIPELINE TREATY THAT WOULD COVER A NORTHERN GAS PIPELINE, MADE IT CLEAR THAT SUCH A DOLS 200 MILLION SOCIO-ECONOMIC SURCHARGE WAS NOT SOMETHING ALLOWED UNDER THAT TREATY AND THEREFORE MIGHT HAVE TO BE SUBJECT TO SEPARATE NEGOTIATIONS.)

THE ROUTE DEVIATION TO DAWSON CITY IN THE YUKON THAT THE NATIONAL ENERGY BOARD DECIDED WAS NECESSARY TO GIVE CANADIANS AN ECONOMIC OPTION TO TAP MACKENZIE DELTA GAS AT A LATER DATE, VIA A DEMPSTER HIGHWAY LATERAL.

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INSTEAD, THE U.S. NEGOTIATORS OFFERED A DIFFERENT ROUTE THAT WOULD TAKE THE MAIN PIPELINE CARRYING ALASKAN GAS ALONG THE ALASKA HIGHWAY CORRIDOR AND WOULD PROVIDE FOR A SPECIAL LATERAL (PERHAPS AT AN EXTRA COST OF ABOUT DOLS 1 BILLION) GOING FROM WHITEHORSE TO DAWSON CITY. IT WAS NOT DETERMINED WHETHER THE UNITED STATES WOULD BE WILLING TO PAY FOR THIS LATERAL OR WHETHER IT WOULD ASSUME CANADA WOULD PAY FOR IT.

AN "ALL EVENTS TARIFF" AS APPROVED IN PRINCIPLE IN THE NEB DECISION, AT LEAST AS LONG AS THIS APPROACH WOULD LEAVE U.S. CONSUMERS LIABLE TO PAY FOR NON-COMPLETION, COST OVERRUNS AND-OR SERVICE INTERRUPTIONS FOR THE PIPELINE

PASSING THROUGH CANADA.

PART OF STANCE FOR NEGOTIATIONS

WHILE IT IS RECOGNIZED THAT THESE "DEMANDS" ARE MERELY
PART OF THE EXPECTED HARD-LINE U.S. NEGOTIATING STANCE,
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IT IS ALSO RECOGNIZED THAT THE CANADIAN GOVERNMENT DOES
NOT HAVE AS MUCH FLEXIBILITY AS IT WOULD LIKE, IN VIEW OF
THE NEB LEGISLATION.

IF ANY SIGNIFICANT CHANGES ARE MADE BY THE GOVERNMENT TO
THE NEB'S PIPELINE DECISION, THEN THE GOVERNMENT HAS TO
BYPASS THE NEB BY INTRODUCING LEGISLATION. THE NEB
DECISION CANNOT BE VARIED BY THE GOVERNMENT, ONLY APPROVED
OR REJECTED.

(THE GOVERNMENT IS ALREADY FACED WITH A MAJOR POTENTIAL
CONFLICT BETWEEN THE NEB REPORT AND THE MORE RECENT LYSYK
REPORT. THE LYSYK REPORT WANTS THE GOVERNMENT TO POSTPONE
A PRECISE ROUTE SELECTION THROUGH THE SOUTHERN YUKON
UNTIL MORE STUDIES ARE MADE AND IT SUGGESTS THAT THE NEB'S
DAWSON CITY DIVERSION MAY NOT BE THE BEST ROUTE; THE NEB
IS VERY PRECISE ABOUT ITS SELECTION OF A DAWSON CITY
DIVERSION FOLLOWING THE KLONDIKE HIGHWAY.)

IN THE BARGAINING WITH THE UNITED STATES, IT NOW SEEMS
OBVIOUS THAT CANADA WILL HAVE TO HOLD BACK SOME TRUMP
CARDS FOR LATER ROUNDS.

THIS MEANS, ACCORDING TO GOVERNMENT SOURCES, THAT THE
FEDERAL GOVERNMENT, IN ANNOUNCING ITS PIPELINE DECISION
EARLY NEXT WEEK, CAN BE EXPECTED TO BE INTENTIONALLY VAGUE
AND NOT TO OFFER THE STRONG COMMITMENT TO THE ALASKA
HIGHWAY PROJECT MOST PEOPLE ANTICIPATE.

ONE OPTION ALREADY BEING SERIOUSLY CONSIDERED IN PREPARA-
TION FOR THIS WEEKEND'S MARATHON CABINET MEETING ON THE
PIPELINE ISSUE WOULD HAVE THE CANADIAN GOVERNMENT ANNOUNCE
THAT AN ALASKA HIGHWAY PIPELINE ACROSS CANADA, WITH
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CERTAIN UNSPECIFIED MODIFICATIONS SEEMS TO BE IN THE
CANADIAN NATIONAL INTEREST.

THEN, CANADA WOULD INVITE THE UNITED STATES TO BEGIN DETAILED DISCUSSIONS TO SEE IF A PROJECT ACCEPTABLE TO BOTH COUNTRIES COULD BE ARRANGED. IN THE MEANTIME, THE CANADIAN GOVERNMENT WOULD UNDERTAKE MORE INTENSIVE STUDIES ON OTHER ENERGY DEVELOPMENT ALTERNATIVES IN THE EVENT A CROSS-CANADA PIPELINE IS NOT FEASIBLE ON A COOPERATIVE BASIS.

SUCH AN APPROACH WOULD BE FAR REMOVED FROM THE ORIGINAL GAME PLAN, WHICH SAW THE CANADIAN GOVERNMENT BEGINNING DISCUSSIONS WITH THE UNITED STATES EARLY IN AUGUST LEADING UP TO A STRONG CANADIAN COMMITMENT TO AN OVERLAND PIPELINE, AND FOLLOWED QUICKLY BY A SIMILAR DECISION BY U.S. PRESIDENT JIMMY CARTER, ANNOUNCED TO CONGRESS EARLY IN SEPTEMBER.

THE MORE VAGUE APPROACH COULD GIVE THE CANADIAN GOVERNMENT THE EXTRA NEGOTIATING ROOM IT NEEDS, WHILE AT THE SAME TIME ALLOWING IT TO PROTECT ITSELF FROM OVER-COMMITTING ITSELF AND THEN BEING REJECTED BY THE UNITED STATES.

THE ACE IN THE HOLE FOR THE UNITED STATES IS THE EL PASO PROJECT, WHICH WOULD INVOLVE PIPING GAS ACROSS ALASKA PARALLEL TO THE OIL PIPELINE, LIQUEFYING IT AND THEN SHIPPING IT DOWN THE COAST TO CALIFORNIA, FOR REGASIFICATION AND MOVEMENT INTO THE CENTRAL AND EASTERN U.S. MARKETS WHERE THE GAS IS DESPERATELY NEEDED.

AND THE MISTAKE THE CANADIAN GOVERNMENT AND ITS NEGOTIATORS SEEM TO HAVE MADE IN THE FIRST DISAPPOINTING ROUND WITH THE UNITED STATES IS ASSUMING THAT THE ALASKA HIGHWAY PIPELINE PROJECT IS THE SURE-FIRE WINNER AND THAT

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THE UNITED STATES WILL RECOGNIZE THAT CANADA IS DOING IT
A FAVOR BY ALLOWING THE ALASKA HIGHWAY PIPELINE TO BE
BUILT ACROSS CANADA.

IN FACT, ACCORDING TO U.S. SOURCES, THE U.S. GOVERNMENT
BELIEVES THAT EL PASO IS A VISIBLE ALTERNATIVE, DESPITE
ITS HIGHER COST AND HIGHER TECHNOLOGICAL UNCERTAINTIES;
AND IT BELIEVES THAT THE UNITED STATES WOULD BE DOING
CANADA A FAVOR BY BUILDING A PIPELINE ACROSS CANADA THAT
AT A LATER DATE COULD BE USED BY THE CANADIANS TO TAP
MACKENZIE DELTA GAS RESERVES.

IN RECENT WEEKS, THE POLITICAL FORCES SUPPORTING EL PASO
HAVE INCREASED THEIR PRESSURE, AND WITH SOME POSITIVE
RESULTS.

FOR EXAMPLE, IN TWO RECENT SPEECHES, PRESIDENT CARTER
HAS GIVEN AS ONE IMPORTANT REASON FOR THE UNITED STATES
TO CONSIDER BUILDING A NEW LARGER "PANAMA CANAL" THE NEED
TO BE ABLE TO MOVE ALASKAN OIL AND GAS BY TANKER TO THE
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GULF COAST AND THE EASTERN SEABOARD.

AGREED TO FUND JUNIOR DEBT

AND THE FACT THAT THE STATE OF ALASKA HAS AGREED TO
FINANCE MOST OF THE JUNIOR DEBT FOR THE EL PASO PROJECT,
THEREBY MAKING FINANCING EASIER, HAS BEEN USED IN THE
GROWING ARGUMENT IN WASHINGTON ABOUT WHETHER THE ALASKA
HIGHWAY PROJECT COULD BE FINANCED WITHOUT U.S. AND
POSSIBLY CANADIAN GOVERNMENT GUARANTEES.

THE KEY, ACCORDING TO KNOWLEDGEABLE OBSERVERS, IS FOR
CANADA TO MEET THE UNITED STATES HEAD ON AT THE NEGOTIA-
TING TABLE, KNOWING THAT WHATEVER THE U.S. NEGOTIATORS
SAY, THERE ARE MORE BENEFITS TO BOTH COUNTRIES WITH THE
ALASKA HIGHWAY PROJECT THAN WITH EL PASO, IF EVERYTHING
IS ARRANGED PROPERLY. END TEXT. ENDERS

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To: STATE
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